Greg Fischer
Mayor

Louisville Metro Council

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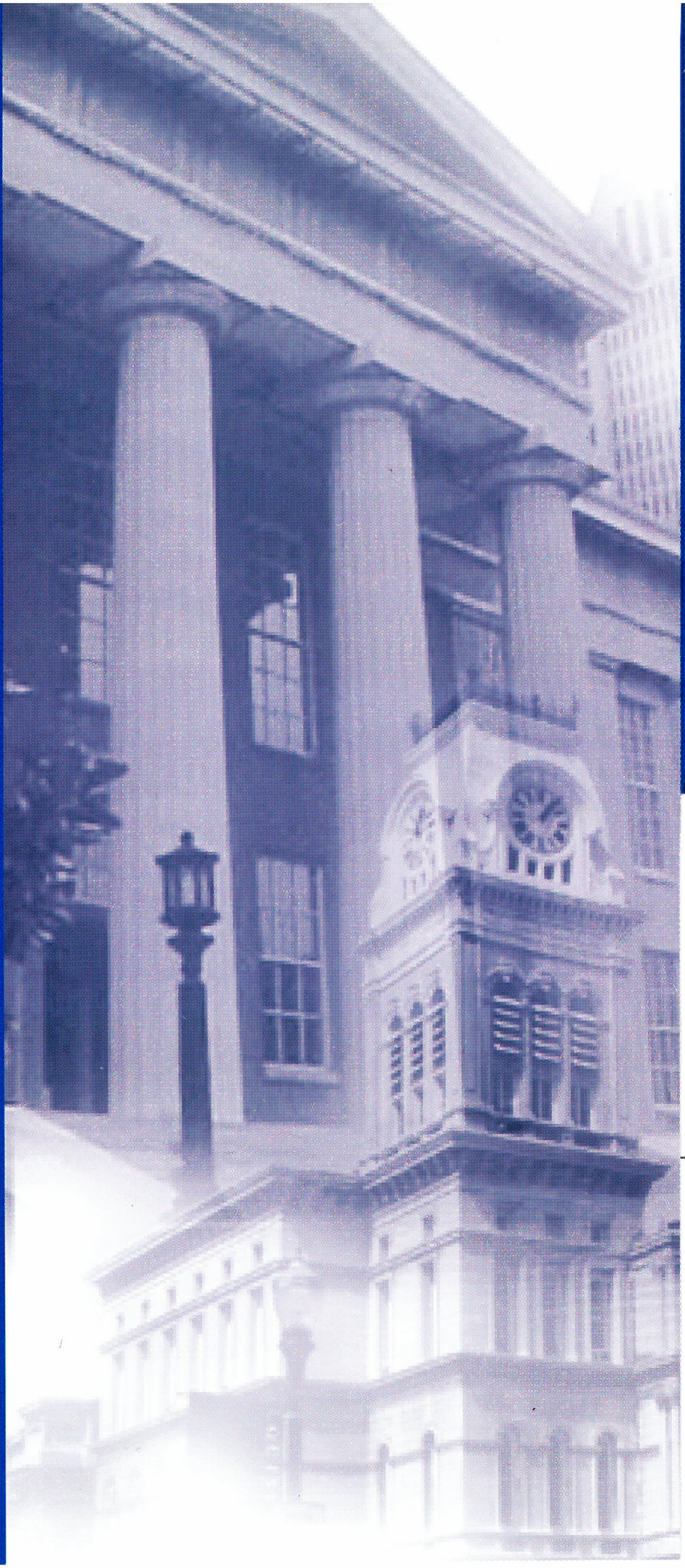

Office of Internal Audit

Public Health and Wellness
Environmental Health Services

Revenue Activity

Audit Report

Public Health and Wellness

Environmental Health Services
Revenue Activity

October 2015

Office of Internal Audit

Public Health and Wellness
Environmental Health
Services

Revenue Activity

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Executive Summary

PROJECT TITLE
Public Health and Wellness Environmental Health Services – Revenue Activity
OBJECTIVE AND SCOPE
The objective was to perform a review of the Louisville Metro Public Health and Wellness Environmental Health Services (EHS) revenue activity with specific focus on the Food Safety and Protection Program. The operating policies, procedures and records for the Food Safety and Protection Program activity were reviewed. The primary focus was the operational and fiscal administration of the activity. This included how activity was processed, recorded and monitored. This was an assurance review based on policies and procedures for the operational and fiscal administration of EHS. The review included revenue activity during fiscal year 2014 and the first and second quarters of fiscal year 2015 (July 1, 2013 through December 31, 2014). The details of the scope and methodology of the review are addressed in the Observations and Recommendations.
INTERNAL CONTROL ASSESSMENT
Needs Improvement
RESULTS

Opportunities exist for improving the internal control structure for EHS revenue activity. Examples include the following.
 	
• **Fiscal Administration.** There were issues noted regarding the fiscal administration of the activity.
  ➢ There were instances in which daily reconciliations were not performed in the presence of the EHS Clerk and a supervisor (dual control).
  ➢ There were instances in which the performance and subsequent approval of the daily reconciliation was not documented by way of the signature of the preparer (EHS Clerk) and the approver (supervisor).
  ➢ There was an instance in which duties related to the fiscal administration of the Food Safety and Protection Program activity were not properly segregated as required by Environmental Health Division Cash Handling Policies.

OFFICE OF INTERNAL AUDIT

LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

DAVID TANDY
PRESIDENT METRO COUNCIL

MAY R. PORTER, INTERIM CHIEF AUDIT EXECUTIVE

Transmittal Letter

October 16, 2015

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of the Public Health and Wellness Environmental Health Services Revenue Activity

Introduction

An audit of the Louisville Metro Public Health and Wellness Environmental Health Services (EHS) revenue activity was performed. The operating policies, procedures and records specific to the Food Safety and Protection Program were reviewed. The primary focus was the operational and fiscal administration of the activity. This includes how activity is processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the audit, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

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There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

A thorough understanding of the Louisville Metro Public Health and Wellness Environmental Health Services (EHS) revenue activity, specific to the Food Safety and Protection Program was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting of activity. Testing of activity was also performed to determine the effectiveness of the controls.

EHS revenue activity, specific to the Food Safety and Protection Program activity was reviewed. The review included revenue activity related to the Food Safety and Protection Program services provided during fiscal year 2014 and the first and second quarter of fiscal year 2015 (July 1, 2013 through December 31, 2014). The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on the selective review of data.

Opinion

It is our opinion that the internal control structure for the EHS revenue activity, specific to the Food Safety and Protection Program needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Fiscal Administration.** There were issues noted regarding the fiscal administration of the activity.
  - There were instances in which daily reconciliations were not performed in the presence of the EHS Clerk and a supervisor (dual control).
  - There were instances in which the performance and subsequent approval of the daily reconciliation was not documented by way of the signature of the preparer (EHS Clerk) and the approver (supervisor).
  - There was an instance in which duties related to the fiscal administration of Food Safety and Protection Program activity were not properly segregated as required by Environmental Health Division Cash Handling policies.

Corrective Action Plan

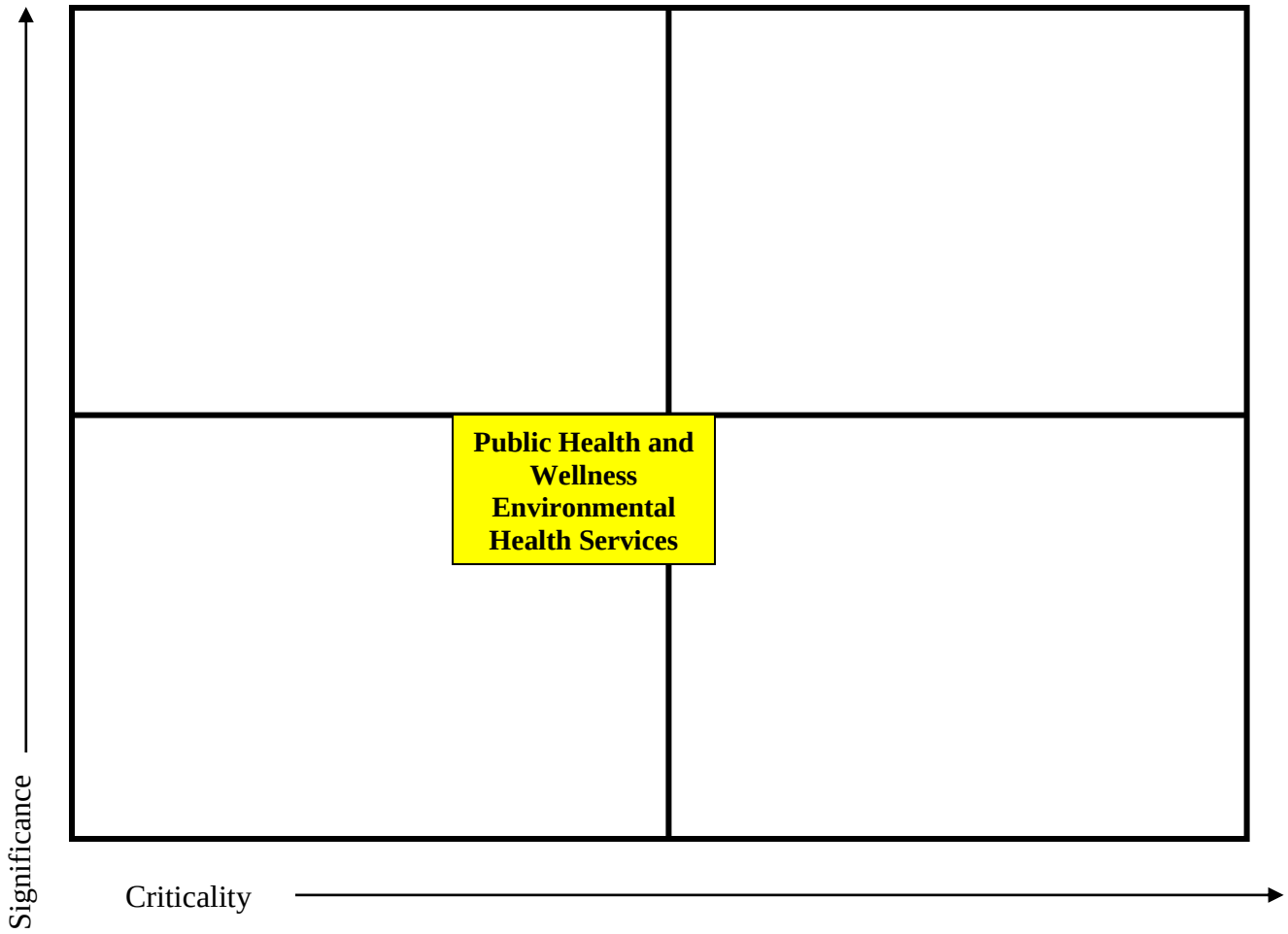
Representatives from Public Health and Wellness have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendation section. We will continue to work with Public Health and Wellness to ensure the actions taken are effective to address the issues noted.

Sincerely,

May R. Porter, CIA
Interim Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Interim Director of Public Health and Wellness
Public Health and Wellness Chief of Staff
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



Legend

Criteria	**Satisfactory**	**Needs Improvement**	**Inadequate**
Issues	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

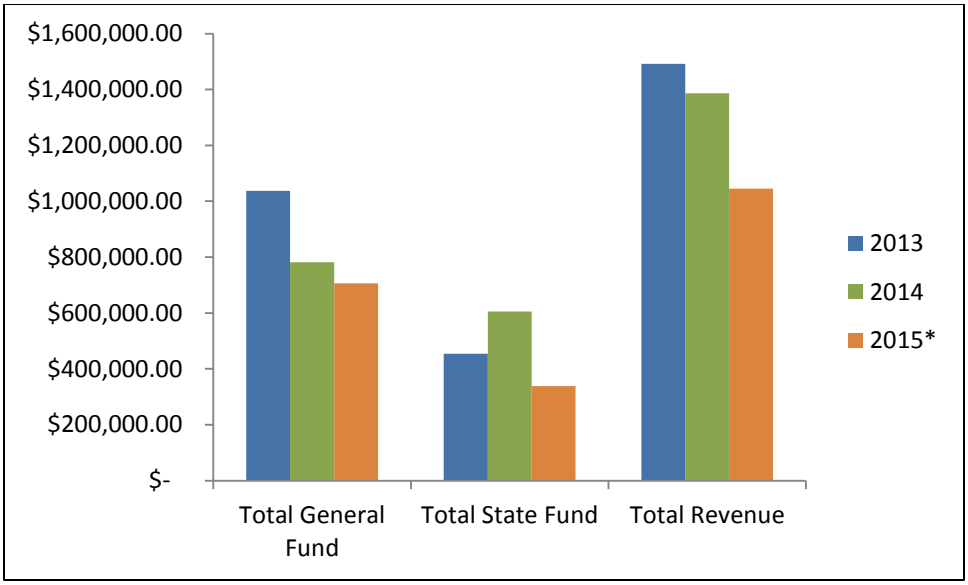
Background

The Environmental Health Services division of the Louisville Metro Public Health and Wellness Department is responsible for operating the Food Safety and Protection Program. The program exists to ensure the health of Louisville Metro consumers by inspecting and mandating establishments that serve food. This is accomplished through enforcement of local and state regulations. State mandated inspections under the authority of the Kentucky State Food Code are conducted in various types of establishments including but not limited to restaurants, groceries, and schools. During calendar year 2014, EHS issued and received fees from approximately 4,000 establishments.

In addition to state regulations, a local ordinance was adopted requiring every food service establishment to have at least one certified food service manager working at all times. EHS is responsible for administration of the certification process.

Total revenue for Food Safety and Protection Program activities included in the review is graphically depicted below in Graph 1. FY 2013-2015 (Includes July 1, 2012-December 31, 2014).

Graph 1: FY 2013 – 2015 Food Safety and Protection Program Revenue



**Includes July 1, 2014- December 31, 2014.*

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously conducted a review of the Environmental Health Services Revenue Activity in August of 2007. Unless otherwise noted, all prior issues have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to Public Health and Wellness on September 18, 2015. An exit conference was held at the Public Health and Wellness on September 23, 2015. Attending were Tammy Anderson, Matt Rhodes, and Connie Mendel representing Public Health and Wellness, and Mayria Porter and Brandon Booth representing Internal Audit. Final audit results were discussed.

The views of Public Health and Wellness officials were received on October 9, 2015 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

> *"The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report."*

The Public Health and Wellness response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

Environmental Health Services revenue activity, specific to the Food Safety and Protection Program activity was reviewed. The operating policies, procedures and records specific to the Food Safety and Protection Program were reviewed. The primary focus was the operational and fiscal administration of the activity. This includes how activity is processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

Revenue activity was tested using a sampling approach. Testing was performed on a sample of transactions related to the processing of payments, write offs, and daily reconciliations. A review of expenditures related to the Food Manager Certification course was also performed. Samples of transactions were selected for testing accuracy, completeness, contractual compliance and timeliness as follows:

- A sample of six third-party vendor invoices was selected to assess accuracy and contractual compliance.
- A sample of 24 Food Manager Certification payments was reviewed to assess billing accuracy and timeliness.
- A sample of 25 food establishments was selected to assess billing accuracy and completeness.
- A sample of 15 write-offs was selected to assess proper review and approval.
- A sample of 36 Money Logs was selected to assess the timeliness, completeness, and accuracy.

The examination would not reveal all non-compliance issues because it was based on selective review of data.

Observations

Issues were noted with the EHS revenue activity. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

1) Fiscal Administration

Details of these begin on the following page.

1) Fiscal Administration

- **Fiscal Administration.** Transactions are manually recorded and documented by EHS Clerks using his/her assigned Money Log. The Money Log is a document used to record transactions related to accepting, and refunding fees. There were issues regarding recording, monitoring, and reconciling transaction activity. Specifics include the following.

  - At the end of each work shift the EHS Clerks reconcile their Money Log to ensure that cash collected agrees to the transactions recorded on the Money Log. However, the reconciliation is not performed in the presence of the EHS Clerk and a supervisor (or designee).

  - There were 38 of 60 instances in which the reconciliation was not signed by the clerk and the supervisor. Both signatures are necessary to signify that both the clerk and a supervisor have jointly performed the reconciliation and both agree that receipts on hand have been reconciled to the transactions recorded on the Money Log.

    - There were 8 of 60 instances in which the reconciliation did not include a signature from the clerk.

    - There were 30 of 60 instances in which the reconciliation did not include a signature from a Supervisor (or designee).

  - There was 1 of 24 instances in which the EHS Clerk responsible for accepting payment and recording the transaction was also responsible for preparing and depositing cash receipts. Environmental Health Division Cash Handling policies require separation of duties. The person who accepts money may not also make the deposit.

  - There were 8 of 60 instances in which multiple EHS Clerks recorded transactions on the same Money Log. This weakens accountability since it is not possible to attribute any discrepancies to a single individual. Environmental Health Division Cash Handling policies require each person accepting money to maintain their own Money Log.

Recommendations

Appropriate EHS personnel should take corrective action to address the aforementioned issues. Consider the following recommendations concerning Environmental Health Services.

- ✓ The daily reconciliation of transactions recorded on the Money Log to the cash collected should be performed under dual control at the end of each work shift. Consider the following in performing the reconciliation(s):
  - Any differences identified should be researched and resolved.
  - The reconciliation preparer should sign and date the reconciliation upon completion.
  - The reconciliation should be subject to a formal review, evidenced by way of the reviewer's signature and the date of review.
  - Any exceptions to the policy and procedures should be documented and include supporting documentation.
- ✓ A single individual should not be responsible for the receipt, recording, deposit, and reconciliation of activity. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring).
- ✓ The EHS Clerk should be assigned a Money Log for their use only. The funds and Money Log should be secured and access restricted to the individual to which the Money Log is assigned.

Public Health and Wellness Corrective Action Plan

Public Health and Wellness concurs with and will implement the recommendations related to fiscal administration. In addition, Public Health and Wellness stated the following:

Memo issued September 18, 2015 advises all Environmental Health & Emergency Preparedness clerical staff to reconcile and submit money logs to the Administrative office prior to the close of business each day. Furthermore, the memo details that two signatures are required for each money log. Exceptions will be noted on the Daily Cash Reconciliation Exception Form. The practice of daily reconciliation is underway.

Instruction has been provided to clerical staff to ensure that each clerk completes an individual daily log. Sign off instructions were included in the memo sent regarding daily reconciliations.

A standardized money log is being created to minimize the number of logs that clerks are responsible for maintaining. This standard log will assure each clerk maintains independent logs while maintaining tracking information for OMB. This issue was created when Business Office functions were centralized. Rigid conformity with the policy was maintained until personnel responsible for coding revenue to proper cost centers were not familiar with the process. Further delineation of logs was necessary to ensure that revenue was being coded to appropriate cost centers. Clerical reps asked if multiple like receipts could be recorded on single logs to reduce the number of logs being utilized, which requires more reconciliation. Further refinement of daily logs is essential to streamline processes and to ensure Division efficiency.

The purpose of this survey is to solicit your opinion concerning the quality of the **Public Health and Wellness Revenue Activity** Audit Report. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to IAUDITIMB@Louisvilleky.gov or to ATTEN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback.

Survey

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.

   __Strongly Agree
   __Agree
   __Neither Agree or Disagree
   __Disagree
   __Strongly Disagree

2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.

   __Strongly Agree
   __Agree
   __Neither Agree or Disagree
   __Disagree
   __Strongly Disagree

3. The audit report is accurate and clearly communicated the audit results.

   __Strongly Agree
   __Agree
   __Neither Agree or Disagree
   __Disagree
   __Strongly Disagree

4. The audit recommendations were constructive, relevant, and actionable.

   __Strongly Agree
   __Agree
   __Neither Agree or Disagree
   __Disagree
   __Strongly Disagree

5. **Was there anything about the audit report that you especially liked?

6. **Was there anything about the audit report that you especially disliked?

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